Mr John Pierce
Australian Energy Market Commission
Level 6, 201 Elizabeth Street
Sydney NSW 2000
Lodged via www.aemc.gov.au

Tuesday, 5 April 2016

Dear Mr Pierce,

RE: Pipeline Access Discussion Paper (Ref GPR0003)

ENGIE appreciates the opportunity to comment on the Australian Energy Market Commission (AEMC) Gas Pipeline Access Discussion Paper (Discussion Paper).

ENGIE is a global energy operator in the businesses of electricity, natural gas and energy services. ENGIE is the number one independent power producer in the world with 115.3 GW of installed power-production capacity, 19 GW of which is renewable. ENGIE employs 1,800 people in Australia and supplies 12 per cent of Australia's National Electricity Market, and has an installed generating capacity of more than 3,550 MW. ENGIE also owns Simply Energy which provides electricity and gas to more than 550,000 retail customer accounts across Victoria, South Australia, New South Wales and Queensland.

ENGIE appreciates the work that the AEMC have done to date on the east coast wholesale gas market and pipeline frameworks review, and notes that the Discussion Paper provides important further detail on the AEMC's deliberations for pipeline access reform. As a general comment, ENGIE is supportive of the general direction that the AEMC have proposed for pipeline access reform, noting that there are many matters of detail that will need further examination to understand how effective and practical the proposed reforms might be in the Australian context.

ENGIE is mindful that the AEMC are now preparing the final report to the Council of Australian Governments (COAG), which will no doubt contain recommendations on whether reforms are justified and if so, how to proceed. ENGIE understands that the AEMC are intending to provide their final report to COAG in May of this year.

To assist in gauging the likely effectiveness and practicality of the proposed reforms, ENGIE suggests that the AEMC hold an industry workshop to examine likely outcomes under the proposed reforms for a number of

Australia
Level 33, Rialto South Tower,
525 Collins Street Melbourne, Victoria 3000, Australia
Tel. +61 (0)3 9617 8400 Fax +61 (0)3 9617 8401 engie.com.au

scenarios. If such a workshop were to go ahead, ENGIE would also suggest that the AEMC invite industry to nominate what particular scenarios would be most important for inclusion in the workshop agenda.

The benefit of holding a scenarios workshop would be that it would inform the AEMC and industry on the degree to which the proposed reforms might be able to overcome the deficiencies of the current arrangements, and also provide insight into what new challenges and issues might emerge. This information would then be useful for the AEMC in forming its final recommendations to COAG, and might also inform consideration of the optimum transition path from the current arrangements to the new.

ENGIE believes that the above workshop suggestion could also be adopted for the DWGM reform proposals, and we will include a similar comment in our submission to that discussion paper.

In terms of the reform process, ENGIE believes that although there is merit in the proposals put forward by the AEMC, further detailed design consideration is required before making a final decision to start an implementation process. ENGIE therefore suggests that in preparing its final report, the AEMC incorporate the need for further detailed design work into its recommendations to COAG.

ENGIE would then expect that if the COAG are of a mind to support the proposed reform pathway, they would then ask the AEMC to commence the detailed design specification work in collaboration with industry.

Turning to the specifics of the Discussion Paper, ENGIE notes that it deals with four key design considerations for pipeline access reform, and also presents a number of governance options to oversee implementation, ranging from an industry led process to a more typical law and rule change process. The remainder of this submission provides comment on the four key design considerations and implementation governance.

Standardisation of capacity products

ENGIE agrees that standardisation of capacity products and certain other contract terms and conditions is likely to facilitate trading of these pipeline capacity instruments as participants will know in advance the nature of the capacity product and the contractual terms, and will be able to compare like for like when evaluating alternative opportunities.

Like many design elements, there is a compromise involved in seeking to standardise elements of gas transport agreements (GTA) and providing flexibility for counter parties to accommodate their specific needs. The need for bespoke GTA's may be more compelling where a pipeline provides services to a single participant, or where a participant's needs are unique. ENGIE believes that although there should be sufficient flexibility provided to these genuinely unique arrangements, there would need to be a regulatory mechanism in place to ensure that any such departure from the standard contract is justified.

One specific area that ENGIE believes needs to be carefully considered is standardisation of prudential arrangements. Typically prudential arrangements between counter parties are tailored to meet the specific needs and circumstances of each of the counter parties so that the risks from each party's perspective can be managed. In seeking to impose standardised arrangements for prudential management, it is possible that the potential contract parties might not be able to adequately meet their prudential risk management needs, and might therefore

decide not to enter into a contract. It would be unfortunate if a mandatory standardised prudential clause prevented parties forming an agreement.

In terms of secondary contracts, a key consideration is whether to choose the current bare transfer method or the operational transfer as the template for a standardised arrangement. As explained in the Discussion Paper, a bare transfer is one where all terms and conditions are set out in an agreement between the primary capacity holder and the buyer, whereas in an operational transfer, this agreement contains only service, price and prudential agreements. An operational transfer requires the buyer to also have an agreement with the pipeline operator setting out operational terms and pipeline related provisions.

ENGIE is inclined to agree with the conclusions of the AEMC that operational transfers should be used as the template for the standard secondary trading instrument since this form of transfer provides greater anonymity for buyers of nominations and use of the pipeline, and it alleviates the primary capacity holder's costs administering the trade and monitoring of buyer's compliance with various obligations.

Secondary capacity trading platform

ENGIE agrees that the changing nature of the east coast gas markets will require more dynamic trading options for pipeline capacity, and therefore supports the AEMC's objective for introducing standardised and streamlined secondary capacity trading mechanisms.

As noted in the Discussion Paper, both Jemena and APA have already introduced web based listing services where participants are able to notify the pipeline company of any capacity sought or available for sale. This information is then displayed on the web based portal where shippers are able to search for available capacity. Prices and contract terms are negotiated privately offline.

ENGIE appreciates the initiatives from both Jemena and APA to provide these web based listing services. Nevertheless, it seems that although there has been some take up of these services, they still require a degree of individual negotiation for each potential trade, which increases cost and complexity, and places the pipelines at the centre of trading arrangements.

ENGIE notes the Discussion Paper examination of the pros and cons of a listing service versus an exchange based trading platform. ENGIE agrees that ultimately, an exchange based on anonymous buy/sell orders for standardised products which are then matched by the exchange provides the most efficient and transparent mechanism. However, ENGIE also notes that if a standardised operational transfer agreement is established and adopted by all pipeline operators, then an expanded listing service encompassing all major pipelines may provide a more cost effective mechanism for shippers seeking short-term capacity.

ENGIE suggests that a transitional reform path might be for the standardised operational transfer agreement to be established and then establish a single consolidated listing service portal that includes all pipeline operators, and that are all based on the standardised operational transfer agreement, thus limiting the need for bilateral negotiation.

After a period of time, the decision could then be taken to move from the consolidated listing service to a single exchange based trading arrangement. This would then provide the platform to include other services such as exchange based hub services.

Once an exchange based trading platform is established, ENGIE agrees with the AEMC that it will be necessary for participants to enter into an exchange agreement, noting that it will be important that the cost and complexity of such an agreement needs to be commensurate with the needs of small participants that might only have the need to trade capacity occasionally.

Day-ahead auction

ENGIE is favourable to the idea of providing a mechanism for the daily auction of surplus pipeline capacity, as this is likely to improve gas trading liquidity leading to more efficient utilisation of gas and infrastructure.

It is likely that in many cases, shippers will be seeking pipeline capacity between two or more particular points which may or may not coincide with a particular pipeline. Rather than having to purchase capacity for an entire pipeline when only a particular sectional element is of interest, a shipper should have the option of bidding for capacity on the section of sections of pipeline capacity that are of relevance to its business.

In addition, rather than having to bid for multiple pipeline sections individually which carries the risk that the shipper may not be successful in obtaining the point to point capacity that it requires, it is better to provide a combinatorial auction which allows a participant to bid for the entire pipeline path (point to point) that it is seeking.

ENGIE notes the comments contained in the discussion paper regarding the interaction between the short term trading market (STTM) nomination times and the pipeline capacity auction, and the AEMC's proposal to utilise the existing market schedule variations mechanism of the STTM to allow a participant to adjust its schedule to remain in keeping with its pipeline capacity.

ENGIE suggests that rather than rely on market schedule variations to adjust STTM nominations following the pipeline capacity auction, the STTM nomination process could be better integrated with the pipeline capacity auction. For example, the STTM nomination made at 12:00 noon could be treated as 'provisional' (where parties make assumptions about pipeline capacity auction outcomes), and then an STTM nomination 'true up' could occur immediately after pipeline auction concludes after 6:00 pm.

The Discussion Paper includes consideration of the interaction between the proposed capacity auction and the existing pipeline capacity nomination and re-nomination rights. This interaction is particularly important for businesses that have a gas requirement that can change quickly and substantially with little or no warning. The most obvious example are operators of peaking gas power generators (GPG) that can be called on by the dynamic national electricity market with as little as five minutes notice.

For example, suppose that the electricity market forecasts indicate to a GPG operator that it's gas generators are not expected to operate during the upcoming gas day, and GPG operator provides gas nominations accordingly. Then part way through the gas day, there is a significant change in the electricity market (for example, a large generator trips) and the electricity market then signals for the GPG operator to start its peaking gas generator. Under existing arrangements, the GPG operator is able to immediately start its peaking gas generator even though

it has not nominated the gas use. ENGIE understands that in most cases, GPG operators will have specific provisions written into their gas contracts to ensure this capability.

This ability to start peaking gas generators at little or no notice is absolutely vital to the security and reliability of the electricity market, and is fundamental to GPG operators being able to provide cap contracts as hedges against high spot prices in the electricity market. It is also possible that other large gas users in other industries have similar needs for short notice peaking gas.

Under the proposed capacity auction, the pipeline operator would offer any un-nominated capacity for auction, with the potential result that GPG operators (and other similar gas users) may no longer have access to the short notice capacity that they depend upon. The AEMC have outlined five options in response to this issue, although ENGIE is not convinced that any of the suggested options will be effective.

One option would devalue the auctioned capacity to the status of “interruptible”, so that it could be called back in the event that a GPG operator suddenly needed it. ENGIE believes that devaluing the auctioned capacity product in this way is likely to be a deterrent for parties that might otherwise be interested in purchasing short term capacity, and could therefore undermine the liquidity of the auction. In any case, ENGIE is not convinced that this would resolve the core issue for the GPG operator. For example, suppose that un-nominated capacity was sold at auction as interruptible capacity, and the purchaser then commences to flow gas as per its entitlement. Towards the end of the gas day, the purchaser has almost exhausted its gas entitlement, and at that point, the GPG operator suddenly receives a signal from the electricity market to start its peaking gas generator. It is possible that at this point in time, there is no further gas capacity left in the pipeline, and the GPG is unable to start its generator. In this scenario, the GPG operator would be disadvantaged by the fact that its unexpected requirement occurred late in the gas day.

Another option proposed by the AEMC is effectively to go ahead with a proposed auction for firm capacity, and leave it for the GPG operators to fend for themselves. This is not a solution at all, but simply ignores the issue. ENGIE urges the AEMC to ensure that whatever new arrangements are proposed for daily auction of pipeline capacity, that suitable accommodation is maintained for these specific and vital gas users.

The other options proposed by the AEMC are variations on the above two extremes, but each suffers to a greater or lesser extent from the deficiencies outlined in the preceding paragraphs.

ENGIE would like to offer a potential alternative option for resolving this issue as follows. The option for certain gas users to be able to maintain an amount of “reserve capacity” should be included in the standard GTA clauses. This option would then be available to be taken up by GPG operators and other gas users that have a need to be able to change their gas requirements at very short notice. This reserve capacity would be able to be priced separately to other “standard capacity”, and would include relaxed obligations for nomination. Any contracted “reserved capacity” would then be exempt from the day ahead auction, and the pipelines would be contractually bound to ensure that the reserve capacity requirements were maintained at all times.

The final point that ENGIE would like to comment on in relation to the daily auction as outlined in the Discussion Paper relates to the allocation of the auction revenue.

The AEMC Discussion Paper states that a shipper should not receive revenue from the day ahead auction so as to ensure that the shipper has an incentive to sell surplus capacity prior to the auction. This statement is somewhat confusing since the daily auction is being proposed as the mechanism to enable shippers to provide surplus capacity to be offered for sale. Suggesting that shippers should endeavour to sell surplus capacity via an alternative mechanism prior to the auction seems to undermine the purpose of the auction itself. If participants did start trading surplus capacity ahead of the auction then it would negatively impact on the liquidity of the day ahead auction.

In any event, it is unlikely that shippers will always know exactly what their capacity requirements will be more than one day in advance, and are therefore unlikely to be in a position to sell capacity more than one day in advance. The daily auction is the appropriate mechanism for shippers to determine their capacity needs and then decide what (if any) capacity is surplus to their requirements, and can therefore be made available for the daily auction.

ENGIE agrees that a portion of the auction revenue needs to be directed towards covering the costs of establishing and running the auction process itself, but beyond that, the auction revenue should be allocated to the shipper that has sold its capacity rights. To allocate this revenue to the pipeline would represent a double dip for the pipeline, who is already receiving payment from the primary shipper for the capacity that is being auctioned.

Publication of key information

ENGIE is supportive of the objective to provide improved transparency of gas market trading opportunities and transactions, with the proviso that no party should be burdened with unjustifiable compliance costs, and that confidential information is handled appropriately.

The need to provide adequate protection for confidentiality is particularly important where a limited number of participants are active on a particular pipeline, with the result that even when aggregated, individual participant information could potentially be inferred. In these cases, ENGIE suggests that aggregation is broadened so that individual participant information is protected.

Implementation governance

ENGIE notes the implementation governance model proposed by APA and Jemena as outlined in the Discussion Paper, which is described as an “Industry led” approach. ENGIE is not convinced that the approach as described will provide a uniform set of arrangements across all pipelines, which is ultimately what this east coast gas market reform should deliver. Any proposal that may result in the continuation of different mechanisms for different pipelines, as determined by the pipeline operators, is not likely to deliver the objectives as set out by COAG for this review.

ENGIE supports an implementation process which includes a full range of inputs from the gas industry, inclusive of pipeline operators, shippers, gas users and the market operator. To ensure that such industry input is appropriately governed, ENGIE believes that the overall policy and rules need to be set out in advance by the AEMC and COAG, and where appropriate, an industry group as outlined above could then be tasked with designing the mechanics of the agreements, procedures and trading mechanisms.

In summary, ENGIE believes that the AEMC have outlined a sound framework for achieving more efficient and transparent arrangements for pipeline capacity access trading. The framework will require detailed design specification and consideration of how effective the arrangements would be under a number of different 'real world' scenarios. ENGIE is supportive of this next phase of detailed consideration being progressed, and looks forward to participating in such work, should the AEMC and COAG decide to proceed.

ENGIE trusts that the comments provided in this response are of assistance to the AEMC in its deliberations. Should you wish to discuss any aspects of this submission, please do not hesitate to contact me on, telephone, 03 9617 8331.

Yours sincerely,

Chris Deague
Wholesale Regulations Manager